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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Report of the Ad Hoc Working Group on Trade, Environment and Development on its second session

held at the Palais des Nations, Geneva,
from 6 to 9 June 1995

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INTRODUCTION

1. The second session of the Ad Hoc Working Group on Trade, Environment and Development was held at the Palais des Nations, Geneva, from 6 to 9 June 1995. In the course of the session, the Ad Hoc Working Group held two plenary meetings. 1/

Opening statement

2. The **Officer-in-charge of the International Trade Division** stated that the Working Group's discussions on the trade and competitiveness effects of environmental policies would provide valuable inputs to UNCTAD IX, the WTO Committee on Trade and Environment and to the Commission on Sustainable Development (CSD). With regard to the effects of environmental policies on market access and competitiveness, discussions would focus on the following issues. First, UNCTAD's empirical and analytical work appeared to indicate that the same environmental policies might have different trade and competitiveness effects on developing countries as opposed to developed countries. The second set of issues related to the importance of scale and sector-specific competitiveness effects, and whether special measures might need to be designed for certain sectors and for small-scale firms in order for them to implement environmental standards. Thirdly, Multilateral Environmental Agreements (MEAs) might have effects on the trade flows and competitiveness of developing countries and countries with economies in transition. Positive measures could be used to mitigate the competitiveness effects of environmental policies. In fact, restrictive measures on trade might be counterproductive even for achieving environmental objectives, which might be better served through positive measures, such as, inter alia, trade facilitation, technical assistance, information and technology transfer, firm-to-firm support mechanisms, export diversification, and cost-efficient environmental management policies. Finally, the Working Group's discussions could also indicate the direction of research and capacity-building efforts that might be required to promote both trade and sustainable development. Analysis and debate on eco-labelling, in UNCTAD and elsewhere, had resulted in increased awareness and understanding of a number of problems with eco-labelling, including its potential to discriminate against foreign producers, in particular those from developing countries. Little or no progress had been made in implementing solutions for potential problems when such criteria were applied to imported products.

3. In the short run, improved transparency might be important. The Working Group might wish to make suggestions to eco-labelling agencies and governments, as well as to the Working Group of the International Organization for Standardization (ISO), which was preparing guiding principles. Discussions might also be helpful to those involved in the ISO process at the national level. In the longer run, exploring the scope for "equivalencies" and mutual recognition between eco-labelling schemes seemed to be a useful approach. In this context, the Working Group might wish to discuss how further work on these issues should be undertaken by the secretariat, taking into account UNEP's expertise.

1/ For the terms of reference of the Ad Hoc Working Group on Trade, Environment and Development, see Trade and Development Board decision 415 (XL), annex I (TD/B/40(2)/26, p. 13).

Chapter I

EFFECTS OF ENVIRONMENTAL POLICIES, STANDARDS AND REGULATIONS ON MARKET ACCESS AND COMPETITIVENESS, WITH SPECIAL REFERENCE TO DEVELOPING COUNTRIES, INCLUDING THE LEAST DEVELOPED AMONG THEM, AND IN THE LIGHT OF UNCTAD EMPIRICAL STUDIES

(Agenda item 2)

and

TRADE, ENVIRONMENT AND DEVELOPMENT ASPECTS OF ESTABLISHING AND OPERATING ECO-LABELLING PROGRAMMES

(Agenda item 3)

4. For its consideration of agenda items 2 and 3, the Ad Hoc Working Group had before it the following documentation:

"Environmental policies, trade and competitiveness: conceptual and empirical issues" - Report by the UNCTAD secretariat (TD/B/WG.6/6).

"Trade, environment and development aspects of establishing and operating eco-labelling programmes" - Report by the UNCTAD secretariat (TD/B/WG.6/5).

5. The **Chief of the Trade and Environment Section** grouped the major points raised in the secretariat's report "Environmental policies, trade and competitiveness: conceptual and empirical issues" (TD/B/WG.6/6) into three sets of issues: (i) trade and competitive effects of domestic and external environmental policies; (ii) the trade and competitiveness effects of Multilateral Environmental Agreements (MEAs); (iii) the identification of positive measures and a discussion on further empirical research to be undertaken, *inter alia*, through country case studies.

6. Regarding the first issue, the report took three lines of argument. First, that, on the whole, it might be easier and less expensive for firms to comply with domestic environmental regulations, policies and measures, rather than external ones, even when domestic regulations were more stringent. Domestic environmental policies could be tailored to take account of the environmental and development situations to which they applied, and technology was generally available to address domestic environmental problems. In many cases, cooperation between government and industry had been successful in achieving pollution reduction along with economic growth.

7. The second issue was that it might be more expensive, in relative and even absolute terms, for producers in developing countries to comply with specific standards than for producers in developed countries. Among the reasons for this were poor infrastructure, unavailability of technology and raw materials needed to meet environmental requirements and difficulties in disseminating information on standards and in monitoring compliance. Moreover, since a significant part of developing countries' experts were homogeneous products competing on a price basis, product differentiation on

the basis of environmental quality was difficult to determine. Firms in developing countries would thus have cost increases resulting from environmental regulations.

8. The third set of issues centred on the factors that influenced the competitiveness effects of a given environmental measure. Economic growth, openness and innovation had been identified as three important factors that might help to mitigate the competitiveness effects of environmental policies.

9. The report also pointed out that more analysis was needed on the trade and competitiveness effects that might arise from the provisions of certain MEAs. It might be useful to identify factors that could be kept in mind when new agreements were negotiated or existing agreements renegotiated. That list might also be useful for interim assessments of the MEAs.

10. It might be useful to list some positive measures that could assist developing countries in their efforts to enhance environmental protection. The Commission on Sustainable Development (CSD), at its third session, had invited UNCTAD to undertake a vast amount of work on environmental policies and competitiveness and to examine how positive measures could support developing countries and countries in transition to internalize their environmental costs and meet their obligations under MEAs. The secretariat looked forward to an intensive interaction with the Working Group in response to CSD's invitation.

11. Turning to UNCTAD's technical assistance programme on trade and environment, he said that, in cooperation with UNDP and UNEP, empirical studies would be carried out in more than 20 developing countries and countries in transition. In expert meetings held in Geneva and New York, it had been suggested that, after the first round of studies, which had purposely been based on broad and flexible guidelines, future studies could focus on more specific issues, following a common methodology. It had also been suggested that it would be useful to include a number of new issues, in particular: (i) the applicability of economic instruments, including taxes and charges, for environmental purposes, in developing countries; (ii) the differential effects of environmental policies, standards and regulations on small- and medium-sized firms (SMEs) versus large firms; (iii) developing countries' concerns and experiences with developed countries' exports of domestically prohibited goods (DPGs); and (iv) sectoral, cross-country studies.

12. The representative of **Pakistan** said that developed countries, having themselves consumed the environmental space needed for development, were now denying the developing countries the right to develop by imposing strict environmental regulations on their exports. Such measures were unilateral in nature and did not take the development perspective into consideration. He quoted a study carried out in Pakistan that had concluded that strict environmental regulations increased bureaucracy; that regulation hindered productivity in firms; that the distributive effects of tighter emission controls affected the poor in particular; that strict environmental controls had a tendency to increase inflation; and that end-of-pipe treatment only solved local environmental problems. It was evident that unilateral environmental regulations imposed on exports of developing countries could serve as a protectionist barrier to trade.

13. He also raised the point that, in the absence of financial assistance to promote environmental policies, exports from developing countries should not be subject to environmental standards as they constituted barriers to trade. While environmental costs were less than 1 per cent of the GNP of developed countries, they might account for 6 to 7 per cent of the GNP of developing countries, which pointed up the inequity of imposing the same environmental policies on developing countries. He was worried about packaging and labelling requirements, which were not covered by the Technical Barriers to Trade (TBT) agreement. Such requirements had the potential to restrict market access significantly; in fact, he regarded the private sector's voluntary measures as more of a concern than environmental regulations, due to their lack of transparency.

14. On eco-labelling, he said that in most cases PPMs do not physically affect the environment of the importing country and that therefore there was no justification under the multilateral rules for applying trade restrictions based on production and process methods (PPMs).

15. Finally, he appealed to developed countries to provide financial resources and free transfer of cleaner technology to promote the creation of sound environmental policy in developing countries.

16. The representative of **Australia** considered that the UNCTAD/UNDP and UNCTAD/UNEP country studies were a major contribution to a more informed debate on trade and environment issues, in particular because they brought a solid base of empirical information. The empirical finding that environmental regulations had not appeared to have had significant competitiveness effects should inform domestic policy-making. However, more analysis was needed on the competitiveness effects of environmental taxes; on the notion that the competitiveness effects of environmental regulations might be more important for commodities than for industrial products; and on the role of the openness of an economy in the link between environmental policies and competitiveness. Improvements in infrastructure had been helpful in lessening the scope for environmental standards to have competitiveness effects, and had been important in achieving environmental improvements in related areas. Since policies that had been directed at environmental concerns could have positive economic benefits in a broad sense, the debate on environmental policies and competitiveness should not have been seen as a trade-off between economic growth and environmental improvements.

17. There had been a need to ensure that eco-labelling was sensitive to different environmental and developmental conditions in different countries. Moreover, there had been a range of significant issues which might limit the potential contribution of eco-labelling in reducing environmental stress in developing countries. Initiatives in relation to transparency, product coverage of schemes, and further work on the mutual recognition of eco-labelling schemes were needed to take into account the concerns of foreign producers.

18. Finally, he felt that the work of the Ad Hoc Working Group should continue to highlight the valuable empirical studies being done by UNCTAD. The experiences of developing countries in relation to trade reform and the environment, and the economic and trade aspects of environmental policies, could be considered. The situation of small firms in developing countries

posed particular challenges: those firms might face greater difficulties in adapting to environmental policies, and often might also have a more serious environmental impact than larger firms. The Working Group should also identify areas in which technical cooperation should be strengthened.

19. Regarding agenda item 2, the representative of **Cuba** stressed the negative effects on the economic, social, technological and environmental areas of the economic blockade imposed on Cuba by the United States of America. He stated that the blockade caused losses of US$ 41,000 million. He identified a series of its negative impacts: reduced availability of fuel for cooking purposes had slowed the process of reforestation; food shortage had led to illegal hunting and uncontrolled devastation of pasture areas within forests; deficient supplies and treatment of drinking water due to lack of machinery; lack of fuel, spare parts and equipment had affected the methods and frequency of waste management; the frequency of garbage collection had been reduced and rubbish dumps had increased; low-quality technologies had led to more costly and less efficient and less environmentally-friendly production processes; there was a lack of financial resources for environmental projects; and there were obstacles to the promotion of exports of environmentally-friendly products.

20. The representative of the **United States of America** commended the secretariat for its reports which, in general, presented an objective appraisal of these complex issues based on a great deal of research. In particular, she was encouraged by a discussion of eco-labelling that considered its effects on the environment as well as on trade. She was, however, somewhat disappointed at the report's tendency at times to draw broad operational conclusions from anecdotal information. For example, in the report on eco-labelling, the lack of real market experience with eco-labelling was discussed, but then some specific statements were made about the trade impacts of such measures.

21. The report on environmental policies, trade and competitiveness also began with anecdotal information on the impacts of MEAs on trade and competitiveness, and then jumped to policy conclusions. In this connection, she noted that the MEA example given covered an agreement that had anticipated some displacement and had its own specific compensatory mechanism. Paragraph 117 tried to draw a broad conclusion stating a general need for compensatory mechanisms in MEAs, which did not appear to be supported by the limited information in the report. Each MEA was unique. The need for trade measures, compensatory mechanisms or other features had to be looked at on a case-by-case basis in the light of the subject-matter of the MEA in question. She believed it would have been useful to attempt a definition of competitiveness to put the report into a better context. For example, although the report appeared to focus on individual firms or sectors, it also seemed to be considering the competitiveness of an entire country. It seemed to argue that competitiveness was equivalent to cost-benefit analysis - an argument with which she disagreed. Cost-benefit analysis was not the only way to prioritize. In the report itself, it had been noted that rigorous cost-benefit analysis was often difficult, if not impossible, due to the difficulty of quantifying environmental benefits accurately.

22. One aspect that seemed to be omitted in the report was the role that taxation policies could play in internalizing environmental costs, which had been recognized in the Rio Declaration as a key objective.

23. Finally, she found the discussion on DPGs to be out of place, as the report had not made a case for DPGs being a competitiveness issue. She was also somewhat puzzled that, while in some parts of the report, the point that environmental regulations reflected different societal values and choices had been underlined, that perspective was notably absent in this section. The report appeared to assume that it was proper for a developed country to impose its choices, which might not be shared by other developed countries, on developing countries. This was really the core issue in DPGs.

Chapter II

PROCEEDINGS OF THE 2ND (CLOSING) PLENARY MEETING

A. Closing statements

24. The representative of **Finland**, referring to the proposal that a two-day topical seminar be held on trade, environment and development as part of the preparations for UNCTAD IX, stated that his Government had accepted to host the seminar, in cooperation with UNCTAD. This issue had been acquiring increasing importance in UNCTAD's work programme and was on the agenda of UNCTAD IX. The purpose of the seminar would be to discuss trade, environment and development linkages in the context of a globalizing and liberalizing world economy, in order to advance consensus-building on these issues. The seminar would be held in Helsinki, in January 1996. Local costs and travel expenses of a certain number of developing countries would be covered by the host Government.

25. The representative of **Venezuela** said that the reports submitted by the secretariat and the discussions at the current session of the Working Group indicated that certain aspects of competitiveness and eco-labelling that were of fundamental interest to the developing countries were not receiving sufficient attention in the environmental policies adopted by the industrialized countries. It was common knowledge that the developing countries were at a disadvantage when it came to complying with environmental policies that restricted economic and trade activity. This stemmed from their own development conditions and pointed to the need for a more comprehensive approach when designing and introducing norms and standards - whether binding or non-binding - that affected the trade and development of all countries. The comparative disadvantages of the developing countries in terms of financial, technological or infrastructural capacity could, in his view, be alleviated by assigning due priority in environmental policy instruments to recognizing the diverse environmental conditions among countries and the financial and technological difficulties faced by developing countries in meeting the exacting norms established in the industrialized countries. Such an approach would be founded on mutual recognition of differentiated/dissimilar technical norms and standards or on mechanisms that took account of the appropriateness of environmental policies in the producing countries. His delegation had in fact detected signs of a positive trend in the stance of the industrialized countries, as when OECD and other delegations had stated that there was no substance in the allegations of eco-dumping. There were thus points of convergence that gave grounds for some optimism. The Working Group should now urge organizations such as ISO, which were engaged in fundamental work on the guiding principles for eco-labelling and on other aspects, to seek to ensure recognition of the validity of environmental priorities and of differentiated norms and standards.

26. The representative of **Romania** said that, although the criteria for different eco-labelling schemes were similar for both developing and developed countries, the operating system of those schemes could discriminate against foreign producers because the strict provisions contained in them might not be justified for the environmental conditions in the producing countries. Therefore, he felt that a more appropriate approach could be to exempt foreign

producers, on a case-by-case basis, from fulfilling certain of those criteria regarding PPMs. Future work on transparency, mutual recognition and equivalency concepts should also be undertaken.

27. Although companies in developing countries and countries in transition were not regarded as small- and medium-sized companies because of their structure and number of employees, they should nevertheless be included in this category from a financial standpoint and when analysing the impact different environmental measures had on them.

28. With regard to technical assistance, he felt that two aspects were particularly important. First, since eco-labelling was an increasingly important issue, it should be the focus of technical assistance. Secondly, since developing countries and countries in transition had difficulties with appropriate national infrastructure and lack of funds, more work could be undertaken to identify all possibilities for technical assistance developed by various organizations.

29. The observer from the **International Chamber of Commerce** (ICC) pointed out that many programmes were in place in business and industry that aimed to promote responsible environmental behaviour. It was difficult to identify goods that might be more environmentally sound than others, and therefore some labelling schemes might be misleading and distort the market. Environmental claims should be based on consistent definitions and be related to objectively established criteria. Regarding claims made by producers or distributors on behalf of their own products, he said that ICC's international codes of advertising practice and environmental advertising, as well as similar national and international codes, set some basic standards. He considered that the market demand for eco-labelling schemes should be determined before embarking on projects to develop criteria. Producers and customers must have confidence that the criteria developed for eco-labels were scientifically based and applied fairly; that they would serve environmental protection; and that they would not be changed arbitrarily. He recognized the danger that labels would continue to be established on a country-by-country basis, without common structures and criteria. He argued that environmental labels should not be obligatory, but noted that even voluntary schemes could in practice become mandatory and a factor of competitiveness at the commercial level. Differences in criteria might also become a substantial non-tariff barrier to trade and could distort competition.

30. Finally, he stated that the two most important principles called for by the ICC were: (i) that all groups with a substantive interest in eco-labelling schemes must be adequately represented when the schemes were established and throughout their operation; and (ii) that all companies should have equal access to those schemes, irrespective of their nationality or type of ownership.

31. The observer from the **World Wide Fund for Nature** stated that environmental labels which were based on clear criteria, transparent and verifiable procedures and third-party certification could be a useful tool for promoting conservation and sustainable development. Innovative solutions to problems such as setting international standards and the need for mutual recognition had been found in NGO schemes that promoted certification of organic agriculture and forest management. For example, the Forest

Stewardship Council had developed a set of generic Principles and Criteria that applied to forests worldwide. However, in the certification process, specific national standards were used, which avoided the potential problem of standards from importing countries being imposed on producers. ISO could make an invaluable contribution to the debate on environmental labelling. There were, however, a number of reasons why, at this stage, it would be unwise and inappropriate for ISO to develop a sustainable forest management standard.

32. The representative of the **United Republic of Tanzania** observed that very few African delegations had been able to participate in the current session of the Working Group. In addition to the usual difficulties they faced, these delegations had been hampered by the scheduling of two intergovernmental meetings in the same week. He therefore appealed to the secretariat to avoid convening two meetings simultaneously and to provide whatever support it could to facilitate the participation of African and, in particular, least developed countries.

B. Action by the Ad Hoc Working Group

33. At the 2nd (closing) meeting, on 9 June 1995, the Chairman introduced a summary of the views expressed and the discussions held during the session, which he had prepared as a result of informal consultations.

34. At the same meeting, the Ad Hoc Working Group took note of the Chairman's summary and decided to annex it to the report on its second session. (For the text of the summary, see annex I.)

C. Comments made after the approval of the Chairman's summary

35. The representative of **Argentina** observed that the Chairman's text represented a very good summary of the discussions held during the session. He wished to make the following brief comments solely for the purpose of clarifying his delegation's understanding on certain points:

- Paragraph 13

  While valid, the concepts could rather have been stated in the reverse order, as follows:

  > "While the removal of trade distortive and environmentally harmful subsidies may not be sufficient, it is nevertheless a necessary step to ensure environmental protection."

- Paragraph 16

  Referring to the studies cited in this paragraph, he said that his delegation felt very strongly that there should also be studies on the environmental and competitiveness effects of distortions in the price-setting mechanisms and of such economic instruments as subsidies and taxes.

- Paragraph 23

  He would have wished to see the first part of the second sentence read:

  > "While eco-labelling programmes should primarily be established for environmental purposes ... ".

- Paragraph 26

  He felt that the emphasis placed on the "market" in the third sentence could lead to underestimating the importance of other aspects, such as the possibility of benefiting from inputs available in the production area.

36. The representative of **Brazil** said that, while the Chairman's summary covered most of the issues that his delegation had raised, he wished to record the following points of importance to his delegation that had not been included in the summary. The first concerned subsidies: he too would have wished to see paragraph 13 reformulated along the lines proposed by Argentina. Secondly, he believed that there was a need for international discussions on eco-labels in order to establish guidelines or disciplines, not only to avoid the eventual trade effects they might have, but also to preserve the credibility of the eco-labels themselves. He outlined some ideas of what such disciplines might involve and hoped that the non-paper to be prepared by the secretariat would reflect those considerations and also set forth the positive measures.

37. The representative of **Mexico** said that her comments were aimed at emphasizing certain points of particular interest to her delegation.

- Paragraph 5

  It emerged clearly from this paragraph that the effects on competitiveness of environmental standards and policies could be differentiated according to whether they were felt in the short or long term, and also whether they were positive or negative. Regarding the third sentence, her delegation felt that the balance between gains and losses was not necessarily linked to standards as such but rather to the fact that certain industries or sectors, in complying with these standards, would have to make use of equipment, technology and environmental services that were not necessarily confined to the sectors in question. This favours the development of new industrial sectors to provide the required equipment and services and new market niches. Here, the balance of advantage weighed heavily in favour of the developed countries.

- Paragraph 9

  Her delegation agreed with the statement in the last sentence that "requiring foreign producers to meet domestic standards and regulations of the importing country was questioned by many delegations on the grounds that social preferences and environmental conditions of one country were not necessarily shared

by others". But she thought there was also an international law problem of extraterritoriality and that the WHO rules did not cover the measures involved.

- Paragraph 13

  On this paragraph she agreed with the comments made by the representative of Argentina concerning the emphasis to be given to "necessary" and "sufficient". Her delegation was also interested in having studies undertaken in order to see how the issue of environmental and production subsidies could be approached with a view to improving the environment.

- Eco-labelling

  Her delegation was concerned that the trade-distorting and discriminatory effects of voluntary eco-labels on imports were as great as - if not greater than - the compulsory eco-labels. It therefore took the view that the distinction between "voluntary" and "compulsory" was increasingly vague. It would be more appropriate to distinguish between unilateral measures and measures based on international standards. Her delegation therefore favoured international disciplines in the field of eco-labelling, and hoped to see UNCTAD and UNEP working towards the elaboration of guidelines or possible criteria for future disciplines in this area.

38. The representative of **Venezuela**, referring to paragraph 9 of the Chairman's summary, agreed with the representative of Mexico that the difficulty of meeting the domestic standards of the importing country was not just a matter of "social preferences" or "environmental conditions", but also raised problems relating to the application and administration of multilateral norms, particularly in the framework of WTO. It was essential to avoid the violation of fundamental trading principles such as non-discrimination with regard to national treatment and the application of the most-favoured-nation (MFN) clause.

39. With reference to paragraph 28 of the Chairman's summary, he said that his delegation would have wished to see the last phrase of the final sentence amended to read as follows: "... application of the environmental priorities and legislation of the importing country".

Chapter III

ORGANIZATIONAL MATTERS

A. Opening of the session

40. The second session of the Ad Hoc Working Group was opened on 6 June 1995 by Mr. F. Abbate, Officer-in-charge of the International Trade Division, in the absence of the Chairman, Mr. Hynninen (Finland), who had to leave Geneva for another appointment.

B. Bureau of the Ad Hoc Working Group

41. At its opening meeting on 6 June 1995, the Ad Hoc Working Group elected Mr. B. Ekblom (Finland) to replace Mr. A. Hynninen (Finland) as Chairman of the Group. The Bureau for the second session was thus as follows:

Chairman:	Mr. B. Ekblom	(Finland)
Vice-Chairmen:	Mr. S. Djajadiningrat	(Indonesia)
	Mrs. R. Mrabet	(Tunisia)
	Mr. G. Thielen Graterol	(Venezuela)
	Mr. B. Diekmann	(Germany)
	Mr. Y. Afanassiev	(Russian Federation)
Rapporteur:	Mr. B. Alipour	(Islamic Republic of Iran)

C. Adoption of the agenda and organization of work

(Agenda item 1)

42. At the same meeting, the Ad Hoc Working Group adopted its provisional agenda (TD/B/WG.6/4) as follows:

1. Adoption of the agenda and organization of work

2. Effects of environmental policies, standards and regulations on market access and competitiveness, with special reference to developing countries, including the least developed among them, and in the light of UNCTAD empirical studies

3. Trade, environment and development aspects of establishing and operating eco-labelling programmes

4. Provisional agenda for the third session of the Ad Hoc Working Group

5. Other business

6. Adoption of the report of the Ad Hoc Working Group to the Trade and Development Board.

D. Provisional agenda for the third session of the Ad Hoc Working Group

(Agenda item 4)

43. At its 2nd (closing) meeting, the Ad Hoc Working Group approved the provisional agenda for its third session. (For the provisional agenda, see annex II.)

E. Adoption of the report of the Ad Hoc Working Group to the Trade and Development Board

(Agenda item 6)

44. Also at its closing meeting, the Ad Hoc Working Group adopted its draft report (TD/B/WG.6/L.4), with minor amendments, and authorized the Rapporteur to complete the report in the light of the proceedings of the closing plenary.

ANNEXES

Annex I

CHAIRMAN'S SUMMARY

1. The second session of the Ad Hoc Working Group on Trade, Environment and Development discussed the competitiveness effects of environmental policies, standards and regulations and the trade, environmental and developmental effects of eco-labelling. The Group's discussions were aided by the high-quality documents prepared by the UNCTAD secretariat. It was recognized that more analysis and discussion of the topics were needed, bearing in mind that the issue of trade and environment also figured on the agenda of UNCTAD IX.

I. Market access and competitiveness

2. The Group's discussions focused on three sets of issues: (a) environmental policies and competitiveness; (b) trade and competitiveness effects of Multilateral Environmental Agreements (MEAs); and (c) future issues for research.

Environmental policies and competitiveness

3. The importance and complexity of the issue of environmental policies, standards, and regulations and competitiveness were generally acknowledged. A further elaboration of the factors affecting competitiveness - at the level of sectors, enterprises and countries - was called for.

4. The Group found it useful to consider competitiveness at both the firm and national levels. It was suggested that the focus, nevertheless, should be on the competitiveness of firms, in particular those of developing countries, in the international markets.

5. At the firm level, the difference between the short- and long-term effects should not be neglected. While the short-term competitiveness effects could be negative, in many sectors the long-term effects were more likely to be positive. At the national level, it was felt that the loss in competitiveness of some sectors might be compensated by gains in others, these possibilities being higher in dynamic economies. At the same time, it was recognized that these options were more limited in countries whose export basket comprised a few products.

6. It was felt necessary to look into the impact of environmental policies, standards and regulations on competitiveness, with respect to both different sectors and types of enterprises. For example, small and medium-sized companies might find compliance with strict environmental standards relatively more difficult. All sectors are not equally affected by environmental requirements and further study of the differences in this regard was felt necessary.

7. The difference in the competitiveness impact of similar environmental policies, standards and regulations on developing and developed countries was emphasized. For example, the scale effects might be differentially felt by

developed and developing countries. The same differentiation was emphasized in respect of sectors. Particular attention was paid to factors such as the openness of the economy, economic growth, the capacity for technological innovation and appropriate infrastructure.

8. There was recognition that the subject of environmental policies, standards, and regulations and competitiveness could not be studied in isolation from macroeconomic conditions, environmental problems and priorities, and pressing economic and social difficulties.

9. There was some discussion on the legitimacy aspects of certain environmental measures. With regard to product standards and regulations, it was recognized that, even if they were legitimate, they might nevertheless have unintended competitiveness effects on trading partners. With regard to process-related standards and regulations, requiring foreign producers to meet domestic standards and regulations of the importing country was questioned by many delegations on the grounds that social preferences and environmental conditions of one country were not necessarily shared by others.

10. More analysis was called for in support of alternative measures for dealing with the negative impact of environmental policies, standards and regulations on competitiveness. The importance of transparency in respect of environmental standards and regulations was emphasized. In addition, a need to identify, on a case-by-case basis, the appropriate technical and/or financial assistance required by developing countries was stressed. Special attention should be given to the least developed countries.

11. The Group found that both domestic regulations and regulations emerging from export markets could pose a challenge for companies. However, since, in the formulation of domestic environmental regulations, local firms had greater access than foreign firms to the decision-making process, domestic regulations might be less predisposed to induce adverse competitiveness effects on domestic firms.

12. It was felt that the level of environmental protection was only one of many factors potentially affecting competitiveness. The Group endorsed one of the conclusions contained in the Report on Trade and Environment to the OECD Council at Ministerial Level, which states that "OECD Governments firmly reject demands sometimes made to introduce so-called green countervailing duties or other protectionist or WTO inconsistent trade measures, to compensate for negative competitiveness effects, whether real or perceived, of environmental policies".

13. It was found that free trade, improved market access, and the removal of trade distortive and environmentally harmful subsidies, while necessary, might not be sufficient to ensure environmental protection.

Trade and competitiveness effects of MEAs

14. It was agreed that further work on both positive and negative trade and competitiveness impacts of MEAs was necessary. Such work should run parallel with the analysis of compensatory/cooperative measures under different MEAs. It was noted that each MEA was different and should be looked at separately. A need to analyse the Montreal Protocol, the Basel Convention and the

Convention on Trade in Endangered Species (CITES), among others, was identified. Some delegations argued that MEAs that did not contain trade provisions might nevertheless have trade effects. It was also felt necessary to study the environmental effects of MEAs.

Further work

15. It was considered that UNCTAD's country case studies provided useful empirical contributions to the deliberations of UNCTAD's intergovernmental bodies.

16. In the context of UNCTAD's technical cooperation activities, reference was made to a number of issues covered by such studies, in particular:

- trade and competitiveness effects of MEAs;
- the differential effects of environmental policies, standards and regulations on small and medium-sized firms versus large firms;
- sectoral, cross-country studies;
- the applicability of economic instruments, including taxes and charges, for environmental purposes in developing countries;
- developing countries' concerns and experiences with developed countries' exports of domestically prohibited goods (DPGs).

17. Further work on the costs of late implementation of MEAs and on the competitiveness effects on non-signatories was deemed necessary. A need to examine whether trade and competitiveness effects of MEAs were more negative in developing countries was underlined. Finally, international cooperation and positive measures were considered as appropriate ways of promoting participation in MEAs.

18. Further work on the competitiveness effects of environmental policies, standards and regulations on small and medium-sized firms, taking into account their importance in the exports of developing countries, and in particular the least developed among them, was identified as an important issue.

19. With regard to sectoral studies, suggestions were made that they could include sectors that produced low-value-added products, and those that produced homogeneous products of export interest to developing countries. It was also suggested that it might be appropriate to consider the competitiveness effects of new and emerging environmental policies, standards and regulations in sectors of export interest to developing countries, in particular where removal of non-tariff barriers had been negotiated in the Uruguay Round.

20. On the issue of economic instruments, three topics were identified for further research: (i) the trade and competitiveness effects of eco-taxes; (ii) the environmental effectiveness of border tax adjustment in the case of process taxes; and (iii) the trade effects of the use of regulatory versus incentive-based mechanisms in addressing environmental problems.

21. It was felt that empirical work on DPGs could add value to the work being done elsewhere, if it was able to document the concerns of developing countries including the least developed among them, and, in particular what type of goods caused them most concern.

II. Eco-labelling

22. The Group continued its deliberation on eco-labelling. Discussions were focused on three sets of issues: (i) trade, environment, and development effects of eco-labelling; (ii) the use of criteria related to process and production methods (PPMs); and (iii) measures to take account of developing countries' interests in determining eco-labelling criteria.

Trade, environment and development aspects

23. The Group discussed the purposes of eco-labelling. While eco-labelling programmes were established essentially for environmental purposes, they provided an opportunity for producers to market products on the basis of their environmental attributes.

24. As regards the extent to which eco-labels had contributed to reducing environmental stress in developed countries, it was noted that there were no systematic studies assessing the environmental effects of eco-labels. A range of factors was mentioned which might limit the potential contribution of eco-labels in the OECD countries to reducing environmental stress in developing countries.

25. It was noted that one of the purposes of eco-labels was to differentiate products on the basis of their environmental quality. It might spur innovation and increase the competitiveness of eco-labelled products. However, there was concern that eco-labelling might, at times, result in discrimination against foreign products, despite the voluntary nature of eco-labels.

26. Eco-labelling could adversely affect the competitiveness of unlabelled products. Thus the competitiveness of firms that found it difficult or costly to comply with the criteria might be adversely affected. The significance of such effects would depend, among other things, on the characteristics of the market. If eco-labels were important in the market-place, eco-labelling might complicate access to such markets.

27. It was noted that eco-labels were gaining importance in sectors of export interest to the developing countries. A number of delegations expressed concern about this trend and questioned the rationale for establishing eco-labelling criteria for products that were principally imported, in particular when such criteria related to the use of specific materials or PPMs.

Process and production methods (PPMs)

28. It was noted that technology-based criteria or specific criteria related to PPMs and materials which were based on environmental conditions and priorities in the importing country, could negatively affect imports, particularly from developing countries, where environmental and developmental conditions were substantially different from those in the importing country. While some delegations questioned the legitimacy of using PPM-related criteria

in the case of imported products, others mentioned that this issue should be looked into on a case-by-case basis. Moreover, it was stressed that the use of process-related criteria could raise issues of extraterritorial application of the environmental priorities of the importing country.

29. Some delegations mentioned that life-cycle analysis and the use of PPM-related criteria might be necessary to provide information to the consumer. Others questioned whether eco-labels, which did not take account of different environmental conditions in the country of production, could provide relevant information to the consumer.

Policy approaches

30. Delegations stressed that there was a need to make eco-labelling more sensitive to differing environmental and developmental conditions in different countries. In this context, some discussion focused on the appropriateness, effectiveness and cost-efficiency of eco-labels in the context of the country of production.

31. A number of delegations recognized that transparency in the context of eco-labelling could be furthered by the involvement of foreign producers in the determination of criteria. The importance of notification procedures was also stressed. Special measures might be needed to enable developing countries to take fuller advantage of existing transparency provisions. In this context, it was considered useful to identify products of export interest to developing countries, particularly the least developed among them, requiring special attention.

32. It was considered useful to explore further the scope for equivalencies and mutual recognition, including under the joint UNCTAD/UNEP programme of work. In this context, UNCTAD could focus on the developmental dimensions. In addition, cooperation between eco-labelling agencies was considered important. One delegation suggested that mutual recognition could be initiated in a pilot form, involving a small number of programmes and products.

33. A number of delegations mentioned that technical and financial assistance, as well as capacity-building efforts in the area of eco-labelling, could help in reducing the potential negative effects of eco-labelling on developing countries. Technical assistance was further needed to facilitate the effective participation of developing countries in future international deliberations on eco-labelling and in the process of the International Organization for Standardization (ISO).

III. Positive measures

34. On the basis of the interventions made by the delegations, a number of positive measures were listed by the secretariat for future consideration of the Group. It was suggested that the secretariat could make this list available to the group as a "non-paper" at a future date.

Annex II

PROVISIONAL AGENDA FOR THE THIRD SESSION OF THE AD HOC WORKING GROUP*

1. Adoption of the agenda and organization of work

2. Environment, international competitiveness and development: lessons from empirical studies

3. Newly emerging environmental policies with a possible trade impact: a preliminary discussion

4. Other business

5. Adoption of the report of the Ad Hoc Working Group on its third and final session to the Trade and Development Board in accordance with paragraph 9 of the Group's terms of reference.

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* As approved by the Working Group at its closing meeting (cf. para. 43 above).

Annex III

ATTENDANCE*

1. The following States members of UNCTAD, members of the Ad Hoc Working Group, were represented at the session:

Algeria
Argentina
Australia
Austria
Bangladesh
Canada
China
Costa Rica
Cuba
Czech Republic
Democratic People's Republic of Korea
Denmark
Egypt
Ethiopia
Finland
France
Germany
Ghana
Greece
Honduras
India
Indonesia
Iran (Islamic Republic of)
Japan
Libyan Arab Jamahiriya
Madagascar
Malaysia
Mexico
Morocco
Netherlands
Norway
Pakistan
Paraguay
Peru
Philippines
Poland
Portugal
Republic of Korea
Romania
Russian Federation
Slovakia
Sri Lanka
Switzerland
Thailand
Tunisia
Turkey
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Uruguay
Venezuela

2. The following States members of UNCTAD, not members of the Ad Hoc Working Group, were represented as observers at the session:

Bahrain
Belgium
Bolivia
Bulgaria
Cameroon
Chile
Ecuador
El Salvador
Iraq
New Zealand
Nicaragua
South Africa
Spain
Sudan
Sweden
Zimbabwe

3. The International Trade Centre UNCTAD/GATT was represented at the session.

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* For the list of participants, see TD/B/WG.6/INF.2

4. The following specialized and related agencies were represented at the session:

International Labour Organization
Food and Agriculture Organization of the United Nations
International Monetary Fund

The World Trade Organization was also represented at the session.

5. The following intergovernmental organizations were represented at the session:

Agency for Cultural and Technical Co-operation
European Community
League of Arab States
Organisation for Economic Co-operation and Development
Organization of African Unity
International Organization for Migration

6. The following non-governmental organizations were represented at the session:

General category

International Chamber of Commerce
International Council of Women
World Federation of United Nations Associations
International Organization for Standardization

Special category

International Union for Conservation of Nature and Natural Resources.

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Report of the Standing Committee on Economic Cooperation among Developing Countries on its third session

held at the Palais des Nations, Geneva,
from 19 to 23 June 1995

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INTRODUCTION

1. The Standing Committee on Economic Cooperation among Developing Countries held its third session at the Palais des Nations, Geneva, from 19 to 23 June 1995. In the course of its session, it held six formal meetings (9th-14th plenary meetings) and six informal meetings.

Introductory statements

2. The **Chairman** said that there was currently a strong revival of interest in ECDC at a time of globalization and liberalization, and "open and flexible ECDC" represented a suitable strategy of development and global participation for developing countries. In dealing with the issues before it, the Committee should develop concrete actions and programmes on monetary, financial and investment cooperation, as well as on the question of regular consultations.

3. The outcome of the Standing Committee's work would become an important contribution to UNCTAD IX, as well as to the forthcoming Working Group to be convened later in the summer in New York pursuant to General Assembly resolution 49/96. The Committee was mandated to review ECDC achievements since Cartagena, as well as to lay the foundations for future work on ECDC, and in that connection he pointed to the need for a constructive and substantive discussion on the role of ECDC in the international cooperation agenda.

4. Finally, he highlighted the importance of UNCTAD as the only intergovernmental organization with a specific and explicit mandate and machinery for ECDC and, by virtue of a General Assembly resolution, the focal point for ECDC in the United Nations system. The future work on ECDC and that of the Standing Committee was therefore of critical importance. While ECDC was cross-sectoral in nature, he feared that the division of work on ECDC into various sectoral activities would make it the concern of many but the work of none.

5. The **Officer-in-charge of UNCTAD** said that, since the first session of the Standing Committee, the interest of developing countries in ECDC had continued unabated, while the industrialized countries and their institutions had continued to support ECDC efforts. Such efforts faced opportunities and challenges in the present context of globalization and liberalization. The response of developing countries had been an outward-looking and flexible approach to ECDC. As globalization and liberalization were particularly evident in the fields of money, finance and investment, it was highly appropriate to review the progress of ECDC efforts in these areas. It was also very relevant to examine enterprise cooperation among developing countries.

6. One major impediment to South-South trade that could be eliminated concerned trade finance and guarantees, the existing schemes for which were not adequate. There was a particular scarcity of pre-shipment credits, long-term finance and guarantees, and payments and clearing arrangements covered only a small portion of the eligible trade. There was a lack of regulatory harmonization and exchange of information on portfolio investments, and in most integration groupings monetary harmonization was only nascent. Just as much needed to be done in respect of enterprise cooperation.

7. In the face of these challenges, the Standing Committee might wish to give sharper focus to its work on monetary, financial, investment and enterprise cooperation. For example, UNCTAD could work jointly with regional development banks on trade finance, explore ways of multilateralizing bilateral payments agreements, and propose means of financial harmonization and regulatory cooperation among developing countries interested in capital market cooperation. Resources would also be needed to expand technical assistance and field work.

8. The increasing importance of ECDC in the context of globalization and liberalization was further emphasized by two developments: the proposal of the Group of 77 to convene a United Nations Conference on South-South Cooperation, and the conclusion of the Uruguay Round. Regarding the latter, questions arose as to the compatibility of some regional initiatives with the outcome of the Round. Similarly, there were areas in agriculture and the food trade that had to be explored. Finally, there was the question of the extent to which developing countries would be able to act as a group in future negotiations.

9. Bearing in mind the scarcity of resources and the mandate given to UNCTAD by the General Assembly to serve as the focal point for ECDC within the United Nations system, the UNCTAD secretariat had proposed possible future orientations for the ECDC work programme which fitted the trends of the time and avoided overlapping with other organizations. Future work on ECDC could build on UNCTAD's specific advantages, such as its global and interregional viewpoint, its experience in trade, monetary, financial and investment issues, its role in the exchange of comparative experiences between developed and developing countries in ECDC matters in the context of international cooperation, and its capacity to service ad hoc requests.

Chapter I

ENLARGING AND DEEPENING MONETARY, FINANCIAL AND INVESTMENT COOPERATION AMONG DEVELOPING COUNTRIES AND PROMOTING COOPERATION OF THE ENTERPRISE SECTORS OF DEVELOPING COUNTRIES

(Agenda item 3)

EVALUATION OF MAJOR DEVELOPMENTS IN THE AREA OF ECONOMIC COOPERATION AMONG DEVELOPING COUNTRIES, INCLUDING IMPLICATIONS OF THE URUGUAY ROUND RESULTS ON ECDC ARRANGEMENTS AND REGULAR CONSULTATIONS, TECHNICAL SUPPORT, ASSISTANCE AND SKILL DEVELOPMENT

(Agenda item 4)

REVIEW OF THE WORK PROGRAMME OF THE STANDING COMMITTEE, WITH SPECIAL EMPHASIS ON THE PREPARATIONS FOR UNCTAD IX

(Agenda item 5)

10. For its consideration of these items, the Standing Committee had before it the following documentation:

"Enlarging and deepening monetary, financial and investment cooperation among developing countries and promoting cooperation of the enterprise sectors of developing countries: report by the UNCTAD secretariat" (TD/B/CN.3/13) (agenda item 3);

"Evaluation of major developments in the area of economic cooperation among developing countries, including implications of the Uruguay Round results on ECDC arrangements and regular consultations, technical support, assistance and skill development: report by the UNCTAD secretariat" (TD/B/CN.3/14) (agenda item 4);

"Review of the work programme of the Standing Committee on ECDC, with special emphasis on the preparations for UNCTAD IX: report by the UNCTAD secretariat" (TD/B/CN.3/15) (agenda item 5).

A. General statements

11. Introducing the items, the **Director of the Division for Economic Cooperation among Developing Countries and Special Programmes** said that cooperation among developing countries was becoming more open and flexible. Under agenda item 3, document TD/B/CN.3/13 analysed and made recommendations on enlarging and deepening monetary, financial and investment cooperation and promoting cooperation among enterprises. Under agenda item 4, the main thrust of document TD/B/CN.3/14 was that an exchange of experiences, sharing of expertise and frequent communication and consultation among developing countries was valuable in enabling countries to draw lessons and make recommendations for strengthening ECDC. In this respect, UNCTAD was the only organization of the United Nations system with an explicit mandate and an intergovernmental mechanism for ECDC. On agenda item 5, there were three key issues. Firstly, UNCTAD's work should involve global and interregional

aspects; secondly, the extension of technical assistance projects and mobilization of resources in areas of ECDC where UNCTAD had accumulated expertise should be given priority; and thirdly, UNCTAD would be a suitable place to examine and discuss the rise of mixed groupings, ad hoc arrangements and the impact of the Uruguay Round results on ECDC.

12. The representative of **Japan** said that his Government recognized the increasing importance of South-South cooperation, as clearly expressed by its Foreign Minister at the General Assembly in September 1994 and its representatives at the Working Group meetings on "An Agenda for Development" at the recent High-level Committee on Technical Cooperation among Developing Countries. His Government was aware of the emerging diversity among developing countries regarding their levels of development and growth. Although many of them still faced the problems of poverty, stagnant economies and current account deficits, some, especially in South-East Asia and Latin America, were enjoying economic growth. Japan therefore advocated a "differentiated approach", by which donors could extend cooperation appropriately tailored to the diversified stages of development and the specific needs of individual developing countries, and it intended to expand its development assistance on those lines. It was increasingly important for the advanced developing countries to share the experiences of their recent successes with other developing countries to supplement the efforts made by the traditional donors; some developing countries had started giving assistance to others, and donors should encourage such initiatives. His Government was advocating this approach not in order to replace the assistance of donors with that of advanced developing countries, nor to politically divide developing countries into separate groupings, but rather from the conviction that future development strategy should be pursued on the basis of a correct and realistic recognition of the current situation of individual developing countries.

13. In pursuit of so-called "triangular cooperation" between relatively advanced developing countries, other developing countries and traditional donors, Japan had, for example, organized the International Conference on African Development in Tokyo in October 1993, as well as seminars and workshops, with the aim of sharing the experiences of South-East Asian countries with African countries. Such an approach could often be more responsive and precisely tailored to the development needs of the countries concerned than programmes managed solely by developed countries, as it reflected regional characteristics and reduced language problems and travel costs. Japan also promoted South-South cooperation through international organizations such as UNDP, the Colombo Plan, the Asian Productivity Organization, the Southeast Asian Fisheries Development Center, and the Asian Institute of Technology.

14. He reiterated his Government's intention to continue its cooperation through an approach whereby donors and recipients could build constructive partnerships based on realistic recognition of the current state of development. He earnestly hoped that the promotion of South-South cooperation in UNCTAD would be pursued on that basis.

15. The representative of **China** said that the documentation prepared by the UNCTAD secretariat was useful in helping to understand ECDC issues. The developing countries were attaching increasing importance to South-South

cooperation following the end of the Uruguay Round. On the one hand, the results of the Uruguay Round offered new opportunities, while on the other they posed new challenges to developing countries.

16. Although developing countries had been progressing, they had embarked late on an independent process of development, and they were confronted with serious difficulties. Developed countries were expected to contribute to that process with expertise and the necessary assistance, and although the main responsibility for development lay with the developing countries themselves, given the interdependence of all countries, partnerships must be built up between developed and developing countries.

17. The ECDC framework was a useful mechanism which should be maintained and improved upon. The present support for ECDC was far from sufficient, and developed countries should do more to support the process in future. He appreciated the work done by UNCTAD, which was uniquely placed to provide more support for ECDC.

18. Finally, China was providing active support for ECDC, and as in the past it would continue striving to cooperate with other developing countries.

19. The representative of **France**, speaking on behalf of the **European Union**, noted the growing importance of ECDC in world trade and in international economic relations. This was reflected in the contribution which the developing countries had made to the growth of the world economy and the increasing share of South-South trade in world trade.

20. The results obtained by Asian and Latin American countries confirmed the complementarity of their economies and the progress of their regional integration. A similar course could also be followed by the African countries, although in their case the road would be long.

21. The conclusion of the Uruguay Round should provide a powerful stimulus for ECDC, since the implementation of the Round's results and their follow-up called for greater regional integration among developing countries, leading to both improved economic efficiency and stronger negotiating capacities.

22. The European Union was making a substantial contribution to ECDC, particularly in the framework of the Lomé Conventions. The Development Assistance Committee (DAC) of OECD had identified the advantages of ECDC, for example the more efficient exploitation of regional potentials due to the reduction of trade barriers, increased complementarities, more investment inflows, a greater capacity to absorb external shocks, and better dispute settlement mechanisms. The DAC supported the idea of incorporating regional dimensions into development assistance policies.

23. Although South-South cooperation had been a goal for developing countries for around four decades, the concrete results had not yet come up to the initial expectations, and a great deal remained to be done to achieve the "open and flexible" ECDC referred to by the secretariat. It was therefore important to find the best way in which UNCTAD could help ECDC to fulfil its potential. In that connection, it must be asked whether a specialized intergovernmental body represented the best means of promoting ECDC and whether it would not be preferable to include an ECDC dimension in the

deliberations on each substantive item and topic discussed in UNCTAD. Specific needs could be dealt with at ad hoc meetings convened by the Trade and Development Board with precise and limited agendas and attended by real experts. In any case, UNCTAD should concentrate on the interregional aspects of ECDC, thereby also giving a greater role to the regional commissions.

24. The representative of the **Food and Agriculture Organization of the United Nations** (FAO) said that economic cooperation and technical cooperation among developing countries, which were complementary and mutually reinforcing, were the priority means of action in FAO's activities. FAO had collaborated with interregional, regional and subregional groupings, Governments of developing countries, regional commissions, networks and other collaborative mechanisms in supporting and implementing a whole range of ECDC/TCDC activities in the fields of FAO's competence, such as regional and subregional agricultural development strategies and policies, intercountry food security arrangements, agricultural trade, nutrition, quality control and food safety, capacity-building and management, training and institutional networking.

25. The spokesman for the **Group of 77** (Colombia) noted the importance of the third session of the Standing Committee in the context of preparations for UNCTAD IX, where the future of ECDC work in UNCTAD would be decided. He expressed the Group of 77's strong wish to produce substantive results at the session, paving the way for cooperative political agreements in the future and confirming UNCTAD as the mainstay for ECDC activities in the United Nations system.

26. On items 3 and 4 of the agenda, the Group of 77 hoped that agreed conclusions could be reached on a number of issues. The first related to measures to increase the availability of trade finance to developing countries, such as the multilateralization of reciprocal credit agreements, enhancing UNCTAD's capacity to deliver technical assistance in trade financing, and promoting its cooperation with regional development banks. The second concerned support for UNCTAD's work on capital market cooperation and investment facilitation. The third related to the encouragement of UNCTAD's activities on multilateral clearing and payments arrangements and its support for their Multilateral Coordinating Committee. The fourth related to measures to encourage the business sector's participation in UNCTAD's work and the organization of meetings aiming at increased business cooperation. In that context, the role of trade points and data networks among developing countries should be emphasized, along with business meetings among chambers of commerce and other professional bodies. Other major activities concerned the provision of assistance to developing countries in assessing the implications of the Uruguay Round and regular consultations.

27. The Group of 77 wished to take a number of points into consideration when reporting to the Trade and Development Board on the work done since Cartagena. The first was the continued need to have UNCTAD as the focal point of the United Nations system on ECDC. UNCTAD's work on ECDC was unique, and the global dimension of UNCTAD, its involvement in interregional matters and its capacity to draw upon a wide range of comparative experiences should be mobilized in the service of ECDC. Finally, UNCTAD had acquired a comparative advantage and accumulated experience in certain fields such as money, finance, trade and investment and its trade and technical assistance benefited from this. In line with paragraph 79 of the Cartagena Commitment, the Standing

Committee should report to the Trade and Development Board on the evaluation of its activities without prejudice to the existing institutional structure, as institutional matters fell under the sole authority of the Conference.

28. The Group of 77 regarded the ECDC work programme and the related machinery as a vital part of international development cooperation. UNCTAD should continue to have a key role in that respect and remain the mainstay of ECDC work within the United Nations system.

29. The spokesman for the **Asian Group** (Islamic Republic of Iran) recalled that the Standing Committee, as mandated by the Cartagena Commitment, was a forum for securing the integration of developing countries into the global economy, and the areas identified as proposed future orientations of the work programme on ECDC in document TD/B/CN.3/15 were indispensable components of any individual or group approach to development. Although there was some overlapping between the discussions in the Standing Committee on ECDC and other committees and ad hoc working groups, the ECDC orientation of various topics should not be ignored.

30. With regard to the integration of the enterprise sector into the ECDC process, there remained many fundamental problems which might keep developing-country enterprises at bay, with their activities restrained by controls, non-transparent rules and non-tariff barriers. Priority should be given to investment and joint ventures, which, if they materialized, could generate great potential and create multiplier effects in developing countries in terms of generating wealth and dynamism.

31. Concerning the basic orientation of ECDC, while it was true that trade among developing countries had undoubted advantages, regional cooperation should not be introverted. As argued in the secretariat's documentation, ECDC should also be outward-looking.

32. With regard to the handicaps faced in the integration process, most groupings, especially those in the primary stage of their development (for example ASEAN in the 1960s or the LDCs and the transition economies in the 1990s) lacked purchasing power, as well as a solid financial and trade structure that could be used to stimulate and foster a pattern of well focused and self-sustaining activities that would shape group cooperation and growth.

33. He emphasized the important role of capital and technological know-how in achieving any surge of trading activities in developing countries' cooperation frameworks. Some integration efforts were stalemated, since commodities and raw materials represented the bulk of the exports of the countries concerned, and the final destinations for a large portion of their exports therefore continued to be developed countries with large-scale processing capacities. Thus, trans-regional capital and know-how support were indispensable elements in fostering such efforts.

34. This North-South characteristic of trade represented a challenge in terms of integrating developing countries into the increasingly globalized and liberalized world economy. The Standing Committee should determine prospects and identify programmes and guidelines for their implementation, while the ECDC actors should come up with viable projects that would attract donor countries. Finally, the ECDC processes should be reoriented with a view to

linking, networking, and channelling the real domestic potential of developing countries in the context of the global economy. This would require greater interaction between ECDC efforts and the dominant players in global trade and the further orientation of multilateral disciplines towards development.

35. The representative of **India** expressed his country's support for the statements made on behalf of the Group of 77 and the Asian Group. He urged that better use be made of the tremendous potential of South-South cooperation, and measures should include the utilization and establishment of databases, buyer-seller meetings, the continuation of the GSTP process, the sensitization of enterprises by UNCTAD on investment opportunities and policies, and the exploration of modalities for capital-market cooperation. In the area of technological cooperation, in addition to multi-country and multi-enterprise initiatives, the issue had to be addressed at the level of research institutes, universities and governments. The issue of regular consultations as a means of trade promotion also merited attention. He invited the UNCTAD secretariat to continue its work on ECDC, with the focus on operationally oriented measures, and the developed countries to contribute to the ECDC process as they had usefully done in the past.

36. The representative of **South Africa** said that, following its normalization in the world community, South Africa was finally able to participate in economic cooperation activities. While progress had been achieved, much remained to be improved regarding ECDC in Africa. In this context she expressed agreement with the suggestions for improving ECDC outlined in the secretariat's documentation. Referring to a number of recent developments in the region, such as the transformation of the Preferential Trade Area for Eastern and Southern Africa (PTA) into the Common Market for Eastern and Southern Africa (COMESA) and the renegotiation of the Southern African Customs Union (SACU), she noted that South Africa had become a member of the Southern African Development Community (SADC) and had been allocated coordinating responsibility within the organization for the finance and investment sector. Although the terms of reference had not been finalized, a number of issues in this sector relating to financial and investment systems came to mind, such as a regional financial institution, currency convertibility in the region, harmonization of central bank regulations, preparation of a draft protocol on finance, and encouragement of capital flows into and within southern Africa. South Africa was also playing a lead role in the Southern African Transport and Communications Commission (SATCC). Other SADC initiatives had been launched in the field of food and agriculture, conflict resolution, free movement of people, and negotiation with the European Union on market access. Finally, the principal bottlenecks hindering interregional cooperation that had to be addressed concerned institutional constraints, especially lack of technical capacity, and non-tariff barriers.

37. The spokesman for the **African Group** (Kenya) said that the evolution of ECDC had been long and difficult, with various regional groupings performing differently. However, somewhat brighter prospects had recently emerged, and both developing and developed countries had come to appreciate ECDC's importance in supporting development. She expressed the hope that the proposed United Nations Conference on South-South Cooperation would give a much needed impetus to the revival of ECDC. The conclusion of the Uruguay Round had raised a number of challenges and problems for ECDC, and in that connection the process of open and flexible ECDC should be encouraged as a

step towards a viable and equitable trading system. At the operational level, new and innovative approaches must be formulated by ECDC groupings to address emerging problems, and she believed that the mechanism of regular consultations as envisaged in the secretariat's report would be very helpful. She also noted with interest the observations made by OECD/DAC countries in respect of regional economic cooperation. She considered those as very positive and deserving further discussion. She expressed her appreciation that some donors had adjusted their planning and budgeting procedures to help facilitate regional initiatives, and she agreed that the suggestions made by the secretariat on possible new approaches to extending development assistance to ECDC entities, particularly those excluded from UNDP funding, deserved support.

38. Referring specifically to paragraphs 77-82 of the secretariat's report TD/B/CN.3/14, she emphasized human resources development as an indispensable component of growth and development. Both South-South and North-South cooperation were of critical importance in that regard, and just as important was the need to bridge the financial gap between the requirements of developing countries and their existing trade-finance capacity. In this context she endorsed UNCTAD's proposal to launch, in cooperation with regional development banks, a project to study possible ways of enabling the banks to finance interregional South-South trade.

39. African national capacities were stretched to breaking point, and never had a continent been required to do so much with so little in such a short time. Traditional problems, such as lack of institutional capacity, human resources inadequacies, lack of well diversified economies, infrastructural and communication bottlenecks at both the national and the subregional levels, and debt repayment obligations, were being compounded by new challenges, and all had an impact upon African efforts to promote ECDC. Africa therefore had unique problems which needed special treatment, and projects and programmes that addressed these problems in the context of ECDC should be given priority.

40. Finally, she called for a concerted and deliberate policy by the international community to address Africa's specific problems.

41. The representative of the **European Community**, referring to the Community's cross-border initiative to facilitate regional trade, investment and payments in Eastern and Southern Africa and the Indian Ocean (CBI), said that the initiative was intended to define practical ways to promote effective integration, to take into account the regional dimension of structural adjustment, and to find ways by which the European Community could promote regional integration in sub-Saharan Africa.

42. The CBI was characterized by a bottom-up approach, with focus on the national level, and countries participated on a voluntary and self-selecting basis. It had four co-sponsors, namely the African Development Bank, the European Commission, IMF and the World Bank, and it had been developed in collaboration with the relevant regional integration organizations and pan-African organizations. The work carried out under the CBI had involved five phases, culminating in a ministerial meeting that had taken place in March 1995 to agree on a timetable for removing intra-regional tariffs and harmonizing external tariffs.

43. Under the CBI, the co-sponsors covered the net transition costs for the governments carrying out the policy package in the form of balance-of-payments support, provided technical assistance for policy reforms and capacity-building, and assisted the private sector in restructuring. In addition, preparatory work was being carried out for complementary regional projects in the financial sector. In the medium and long run there would be net benefits from increased regional growth.

44. The main focuses of the policy programme were: trade liberalization; trade facilitation; facilitation of investment flows; facilitation of movement of persons; foreign exchange liberalization; and strengthening financial intermediation. The European Community also supported the elimination of the physical constraints to integration in the area of transport and communications.

45. The CBI was pragmatic and broad-based, involving the participation of the private sector. By focusing on the basic preconditions of integration, it supported the regional organizations in carrying out their work programme, and it took place at different speeds in different countries.

46. The representative of the **Organization of African Unity** (OAU) said that ECDC provided Africa with an important avenue for addressing the enormous challenges arising from the growing adoption of market-oriented policies and for arresting the marginalization of Africa in global trade expansion. He expressed appreciation for the UNCTAD technical assistance activities outlined in document TD/B/CN.3/14, particularly the assistance rendered in the training of an OAU staff member. The training had benefited the Organization. He therefore endorsed the recommendations in document TD/B/CN.3/15 and urged the development partners to join the OAU in accepting the concept of the continued existence of UNCTAD. Finally, he stated that UNCTAD remained the most competent body to handle ECDC issues, and UNCTAD intergovernmental meetings provided an appropriate forum for ECDC deliberations.

47. The representative of the **European Community** reaffirmed the Community's traditional encouragement of regional ECDC in the form of political support, financial and technical assistance, trade preferences for integration groupings and special (cumulative) rules of origin. Assistance to integration efforts, which was not limited to the framework of the Lomé Convention, was particularly important as regards Latin America and the Mediterranean Basin.

48. On 1 June 1995, the Council of the EU had approved a "Resolution on Support for Integration Efforts of Developing Countries". The document took stock of various developments such as the rise of regionalism, the compatibility between regionalism and multilateralism, and the establishment of stricter guidelines by the Uruguay Round on the conditions for this compatibility. It stated that the only genuine regionalism was an open one, and that regional integration was not only a matter of political will but also of institutional capacity.

49. The document restated two major avenues for Community support for regional integration, namely trade policy and development cooperation policy. As regards the first area, trade preferences cumulative rules of origin and the eventual establishment of free-trade areas with some regions could be the

main instruments. In the latter area, the three priorities were institutional capacity-building, support for the private sector, and assistance for States in their economic reform efforts aimed at carrying out integration.

50. Previously, the Community had provided external assistance for regional integration, but from now on, it would also be a direct participant and partner in some initiatives, for example through proposals for the eventual establishment of free-trade areas between the European Union and MERCOSUR and the Mediterranean region. The goals would be to strengthen regional integration, foster a better insertion of both the EU and the integration grouping of developing countries into the world economy, and facilitate sustainable development.

B. Informal presentations

51. In the course of the Standing Committee's session, informal presentations were made on agenda item 3. (For brief summaries of the presentations, see annex II.)

C. Proceedings of the closing plenary

52. The representative of **Zambia** said that, through its regional adviser, UNCTAD could provide valuable assistance to the economic cooperation arrangements of developing countries. It was not clear, therefore, why the post of regional adviser in UNCTAD had been left vacant.

53. The **Chief of the Administration Service of UNCTAD** said that in fact UNCTAD did not have a regional adviser's post as such but had a number of work months allocated for regional advisory services. The real question was whether UNCTAD was in a position to provide regional advisory services at the present time, and he believed that it could, since if a country requested assistance from a specific division and that division was not in a position to respond due to a lack of resources, every effort would be made to find resources elsewhere in the secretariat.

Action by the Standing Committee

54. At its 14th (closing) plenary meeting, on 23 June 1995, the **Standing Committee** adopted the draft agreed conclusions submitted by the Chairman on agenda items 3, 4 and 5 (TD/B/CN.3/L.8). (For the agreed conclusions, see annex I.)

55. At the same meeting, the **Standing Committee** further decided that the Chairman's summary of the informal discussions should also be annexed to the report (for the summary, see annex III).

Closing statements

56. The spokesman for the **Asian Group** (Islamic Republic of Iran) said that the Standing Committee's discussions at its third session would have an important influence on the deliberations at UNCTAD IX and on the future orientation of work on ECDC, which would remain a vital element in integrating developing countries into the globalization process. In that connection, the type and scope of developing countries' experience in formulating and

implementing development policies varied, and exchanges of experience were therefore undoubtedly useful. However, they represented just one element among several, and other factors such as tangible economic cooperation and technical cooperation involving concrete projects enjoying the support of development banks and export credit agencies were more important still. In that context, the triangular cooperation referred to in the agreed conclusions would be helpful only if the intention was to expand the scope of cooperation horizontally. Trying to establish vertical relationships among developing countries would not be a good idea.

57. The representative of **China** said that the outcome of the Standing Committee's third session showed the importance that the international community attached to ECDC. Because of the growing interdependence among countries, ECDC could promote the economic development of developing countries and was also in the long-term interests of the developed countries. The support of the developed countries for ECDC was therefore appreciated.

58. The spokesman for Group B (Japan) said that Group B delegations were satisfied with the valuable conclusions reached by the Standing Committee, which would make a great contribution to the Intergovernmental Expert Group Meeting on South-South Cooperation to be held at the end of July 1995.

59. The spokesperson for the **African Group** (Kenya) said that the session of the Standing Committee had underpinned the potential of ECDC, and her Group was very satisfied with the conclusions reached.

60. The representative of **France**, speaking on behalf of the **European Union**, said that, during the Standing Committee's session, the European Union had demonstrated the importance it attached to ECDC. It welcomed the results achieved by the Committee, as well as the consensus reached on the best way of pursuing work on ECDC in the future.

61. The **Officer-in-Charge of UNCTAD** said that the work of the Committee had been marked by the very good cooperation received from both the developed and the developing countries, and that cooperation was reflected in the Committee's agreed conclusions. These conclusions restated the need for open and flexible ECDC, and they represented another step forward in the preparations for the high-level meeting on South-South cooperation. The agreed conclusions, by highlighting the work programme, also opened up new prospects for further work on ECDC, and this had been made possible by the commitment of the developing countries to ECDC and by the assistance provided by the developed countries. ECDC would remain a core element of the global strategy for development, and the results of the Standing Committee's session did justice both to the ECDC concept and to the role of UNCTAD in that connection.

62. The **Chairman** said that the Standing Committee's session marked a historical high point in work on ECDC in UNCTAD. The Committee had agreed on a core of future activities for UNCTAD in the field of ECDC which imparted a new orientation to the work of the organization in line with the changed conditions of the world economy and ECDC. Open and flexible ECDC had become a strategy for growth and development and a major instrument for enhancing the participation of developing countries in the global economy. The work of UNCTAD in respect of ECDC had thus been endowed with enhanced relevance and comprehensiveness.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

63. The third session of the Standing Committee on Economic Cooperation among Developing Countries was opened on 19 June 1995 at the Palais des Nations, Geneva, by Mr. B. Alipour (Islamic Republic of Iran), Vice-Chairman of the Standing Committee at its second session.

B. Election of officers

(Agenda item 1)

64. At its 9th (opening) plenary meeting, on Monday, 19 June 1995, the Standing Committee elected the officers for its third session, as follows:

Chairman:	Mr. B.P. Lacoul (Nepal)
Vice-Chairmen:	Mr. I. Kinnas (Greece) Mr. M. Mangachi (United Republic of Tanzania) Mr. C. Amorin (Uruguay) Mr. W. Prodjowarsito (Indonesia) Mr. V. Skliarov (Russian Federation)
Rapporteur:	Mr. M. Nishioka (Japan)

C. Adoption of the agenda and organization of work

(Agenda item 2)

65. Also at the opening plenary meeting of its third session, the Standing Committee adopted the provisional agenda for the session (TD/B/CN.3/12). The agenda was thus as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Enlarging and deepening monetary, financial and investment cooperation among developing countries and promoting cooperation of the enterprise sectors of developing countries

4. Evaluation of major developments in the area of economic cooperation among developing countries, including implications of the Uruguay Round results on ECDC arrangements and regular consultations, technical support, assistance and skill development

5. Review of the work programme of the Standing Committee, with special emphasis on the preparations for UNCTAD IX

6. Other business

7. Adoption of the report of the Standing Committee to the Trade and Development Board.

D. Adoption of the report of the Standing Committee to the Trade and Development Board

(Agenda item 7)

66. At its 14th (closing) plenary, on 23 June 1995, the Standing Committee adopted its draft report (TD/B/CN.3/L.7 and Add.1), subject to any amendments received from delegations to the summaries of their statements, and authorized the Rapporteur to complete the final text of the report in the light of the proceedings of the closing plenary.

Annex I

AGREED CONCLUSIONS ADOPTED BY THE STANDING COMMITTEE AT ITS THIRD SESSION

1. The resurgence of interest shown by developing countries in ECDC in recent years has been characterized by an increase in "open and flexible" ECDC, in which ECDC is part of the globalization and liberalization processes and wherein its format and scope are becoming increasingly flexible.

2. The scope for ECDC has been expanded as some developing countries have reached a stage of development in certain fields which strengthens the complementarity between the economies of developing countries and where they can share their development experiences with other developing countries. Some ECDC initiatives have benefited from the support given by some developed countries and groupings for capacity-building and for the lowering of intraregional trade barriers.

3. Trade financing is an essential facet of ECDC. In addition to trade, trade-financing underpins business, investment and technological cooperation. In this respect it was recognized that efforts should be made on three fronts: to assist developing and upgrading national and regional institutions so as to build up their institutional capacity and train their personnel; to mobilize the involvement of financial institutions such as development banks and export-credit agencies in the promotion of trade financing - especially for non-traditional exports and small-scale enterprises; and to consider launching a process aimed at achieving multilateral credit arrangements among developing countries.

4. It was recognized that capital market cooperation is of major importance for the mobilization of financial resources. In this regard, it could be useful to continue to develop, or introduce where they do not exist, inventories of regulations and legislative and other policy measures to work towards standardization, harmonization, equal treatment and eventual adoption of international norms by integration groups interested in capital market cooperation. The need to avoid duplicating previous or ongoing work should be kept in mind. Strengthening links among financial institutions, such as commercial banks of developing countries, is another possible area which could contribute significantly to capacity-building and financial networking.

5. Among regional partners where closer economic ties are sought, predictable monetary policies are prerequisites for stable and realistic foreign exchange rates. To this effect, monetary policy coordination, including that of foreign-exchange policies, is increasingly important. For this purpose, the function of regional/subregional monetary agencies, where they exist, may need to be strengthened. Clearing and payments arrangements should be encouraged to assume a similar role where such a regional mechanism does not exist.

6. The attainment of currency convertibility by some developing countries does not diminish the importance of their clearing and payments arrangements. These continue to play an important role, inter alia, in credit extension and monetary-policy coordination. The importance of technical assistance to these clearing and payment arrangements was recognized. In this connection, support

was expressed for such arrangements, for example the Coordination Committee on Multilateral Payments Arrangements and Monetary Cooperation among Developing Countries.

7. Direct investment among developing countries should be encouraged. For this, it may be worthwhile to consider measures such as the harmonization of investment policies and conclusion of bilateral and multilateral promotion and protection treaties.

8. It is important to create the necessary conditions to encourage cross-border business activities. The dissemination and networking of information on investment opportunities, rules and regulations will contribute greatly to the facilitation of investment to and among developing countries. The exchange of business experiences among developing countries, in particular those dealing with how to cope with liberalization and privatization, may also be useful.

9. There are many examples of successful export-processing, industrial and special economic zones in developing countries. These zones are promoting ECDC by increasingly attracting foreign investors from other developing countries. A major element of these successes is the concentration of economic activities, and adequate and appropriate supporting services and infrastructure. Such zones should be encouraged when they are economically efficient and viable and do not lead to economic distortions.

10. It is of great importance to expand contacts and linkages among business enterprises of developing countries through, inter alia: organization of meetings of business enterprises; dissemination of information on developing-country enterprises; support for business associations such as chambers of commerce; support for trading companies and their associations; and promotion of joint-ventures, as well as buyer/seller meetings based on precise identification of trade potentials. The participation of the enterprise sector in meetings of ECDC arrangements and other international forums such as UNCTAD and ITC should be encouraged.

11. Several new avenues of technological cooperation or partnership could be explored in search of dynamic complementarities within an increasingly open and competitive paradigm. In this regard, joint multi-enterprise and multi-country efforts, which also encompass cooperation between research institutes, universities, and venture capital financing associations, should be encouraged. This would enhance the pooling of research and development resources, research contracting and commercialization of technology.

12. Strengthening the institutional and governmental mechanisms dealing with ECDC within developing countries should be seriously considered. In this respect, the establishment of appropriate focal points for ECDC can have important benefits in ensuring implementation of ECDC commitments, policy consistency and institutional communications. Moreover, the exchange of experience among countries and integration groupings will enhance ECDC.

13. The conclusion of the Uruguay Round of Multilateral Trade Negotiations has provided a good opportunity for regional/subregional integration groupings to reflect on the role and the implications of the Round for ECDC. The conclusion of the Round and the process of regional/subregional economic

integration among developing countries should be mutually reinforcing, and developing countries are encouraged to pursue "open and flexible" economic integration.

14. The new dispute settlement mechanism introduced by the conclusion of the Uruguay Round marks a clear improvement. Developing countries may benefit by using this new mechanism effectively, and should consider cooperating with each other in this respect.

15. It would also be useful to explore further the possibilities of cooperation in new areas such as services and investments. As there is great diversity in the ways of cooperating in these areas, an immediate task may be to compile and exchange information on existing mechanisms of cooperation.

16. Regular consultations can make a major contribution to the improvement of ECDC and should be encouraged. To this end, developing countries and donors are invited to put into effect the agreed recommendations adopted by this Committee at its second session.

17. One of the distinct features of the promotion of ECDC with cooperation from donor countries is triangular cooperation, in which developing countries having acquired successful achievements in development share their experiences with other developing countries in partnership with donor countries. This type of cooperation represents a new style of partnership among participants in ECDC.

18. It was agreed that emphasis should be placed on exchanges of experiences among the various regions. This should cover all forms of cooperation, including those on an ad hoc basis, and should be constrained neither by geographical limits nor by limits on the character of membership. Technical assistance, through TCDC, tripartite approaches and field work by the secretariat, can make a significant contribution to the process of ECDC. Due emphasis should be put on enterprise cooperation and the promotion of the various modalities relevant to the participation of the business sector in ECDC. This might encompass joint enterprises, joint investments, training, technological cooperation and capacity-building. Of special importance is the provision of information on business opportunities, needs and data of relevance to enterprise undertakings.

19. Africa, as a region, might become more marginalized and, in designing South-South cooperation strategies, special attention needs to be given to Africa, inter alia through technical assistance, and in particular to the least developed countries, to enable them to play a greater role in the world economy. Furthermore, Africa and the Indian Ocean Rim countries provide propitious domains for ECDC activities.

20. In order to avoid duplication of work and secure effective and efficient ECDC activities, it is important to coordinate and cooperate with other relevant United Nations agencies, including UNDP (TCDC), the regional commissions, ITC, etc., whose active participation can make a positive contribution to the ECDC process.

21. The Standing Committee, at its three sessions, carried out a valuable work programme. Its work could have benefited from the increased participation of experts from capitals. Thus, new methods of work ought to be explored throughout UNCTAD. The Committee had established a core of substantive issues and activities for the work of UNCTAD in ECDC at its second and third sessions, as reflected in the agreed substantive conclusions on items 3 and 4 of the present session and the agreed conclusions of the second session. As regards future work on ECDC, UNCTAD has a role to play in this area and it should continue its work on those issues where it has expertise and competence. With respect to institutional reform, it was agreed that this issue be deferred to UNCTAD IX for consideration. The question whether the existing form of intergovernmental machinery for addressing ECDC is the appropriate one, or whether some alternative form could be envisaged, will be reviewed by the Board in accordance with paragraph 76 of the Cartagena Commitment.

Annex II

SUMMARIES OF INFORMAL PRESENTATIONS ON AGENDA ITEM 3

1. Under item 3 of the agenda, informal presentations were made by two guest speakers. The first speaker, **Dr. Stephany Griffith-Jones** (Institute of Development Studies, University of Sussex, United Kingdom), reviewed monetary and financial cooperation in Latin America and the Caribbean which, although characteristic of that region, could be adapted and emulated by other developing regions.

2. Dr. Griffith-Jones said that, in regional cooperation, monetary and financial aspects played an increasing role on account of their capacity to enhance trade integration (in case of payments and trade finance), their market-driven impulse (in case of FDI), and their dynamic impact on flows from outside the region.

3. In Latin America and the Caribbean, the LAIA multilateral payments arrangement had been successful because of the strong demand for the system and an effective system for minimizing arrears (the system of credit lines and Automatic Payments Programme) and since the majority of member countries were not in a permanent debtor-creditor position. At the beginning of the 1990s, however, intra-group imports had grown faster than the transactions channelled through the payments system. This increase in intra-trade outside the system had been made possible by the massive inflow of short-term capital. As this inflow had since stopped or even been reversed, it was expected that the share of transactions channelled through the payments system would increase again. In such cases of a sudden decrease of private financial flows, the existence of payments arrangements and their credit lines could serve as a way to reduce contingencies and to facilitate the continued financing of intra-trade.

4. Dr. Griffith-Jones saw a future role for LAIA in facilitating monetary cooperation and coordination among member countries, eventually covering trade among more countries in Latin America and the Caribbean, and facilitating interregional payments with other developing regions. In these activities, technical assistance from institutions like UNCTAD could play an important role.

5. In trade financing, the case of the Latin American Export Bank (BLADEX) was very interesting, as the establishment of the bank had been promoted and the capital partially subscribed by a regional development bank and the World Bank. Although there were various institutions in the region offering trade finance, there was a shortage of medium- and long-term lending and of guarantees, particularly for small enterprises, as well as for the financing of non-traditional exports. The existing institutions would need to carefully streamline and focus their efforts in these fields. They also needed to clearly define the leadership roles in each of these domains. She believed that the technical assistance, training and redesigning activities in this area could benefit from UNCTAD's expertise and comparative experience.

6. On the question of direct and portfolio flows, she regarded the recent upsurge in intra-Latin American flows as a central element of market-driven integration. She advocated a gradual and steady liberalization of capital movements, particularly in the case of the more volatile short-term flows.

She also emphasized the links between intraregional and global flows. On the one hand, FDI from outside the region changed the prospects of regional integration, and it might be useful to review this aspect in UNCTAD and carry out a thorough analysis of regional capital markets. On the other hand, emulating the strategies of certain Chilean companies, resources tapped on international markets might in part be used to bolster intra-regional investment. This topic again might require further analysis by institutions like UNCTAD.

7. The second speaker, **Mr. Paulo Manoel Protasio**, President of the Latin American Trading Association and Vice-President of the Confederation of Brazilian Trade Associations, reviewed prospects for the promotion of the enterprise sectors of developing countries, and emphasized that the time had long come to understand the changes occurring in the modes of cooperation among developing countries.

8. Global experience had shown that sound and broadly based sustainable economic growth was best achieved through the efforts of a vibrant and healthy private sector. The commitment of developing countries to increasing their reliance upon market disciplines and private enterprise had created improved opportunities for constructive international cooperation. In response to these opportunities, efforts should be made to go beyond the traditionally known subjects of privatization, and other measures to maximize the effectiveness of activities specially designed to promote foreign direct investment should be adopted.

9. What was needed in this new policy environment of developing countries was focus and discipline. Opportunities were unlimited, but companies, particularly small- and medium-sized ones, needed help and assistance if they were to maximize these opportunities. This provided a role for private institutions like Chambers of Commerce and World Trade Centres which formed a worldwide network facilitating international cooperation. It was in this partnership that UNCTAD must develop its activities. INTERNET transcended technical and geographical hurdles, and many companies in the world had redesigned the transaction process between themselves and their suppliers. Purchase authorizations, purchase orders, and backorder notices had become nearly extinct in the new, continuous-replenishment process, and the goal of integrated logistics was to move products from maker to user in a single step. It was hoped that the session of the Standing Committee would stimulate efforts to seek effective reform designs under different market conditions in different countries that would eventually culminate in a new paradigm.

10. Mr. Protasio suggested that UNCTAD should take new initiatives on ECDC that would bring private-sector and business-type activities within its purview. In launching such initiatives, care should be taken to time them appropriately in the light of prevailing market conditions. The advantages offered by the political experience of the United Nations should be used to launch new initiatives that went beyond the current conventional approaches, and all such initiatives should be designed to benefit from the knowledge and skills of the private sector.

ANNEX III

CHAIRMAN'S SUMMARY OF THE INFORMAL DISCUSSIONS

Agenda item 3: Enlarging and deepening monetary, financial and investment cooperation among developing countries and promoting cooperation of the enterprise sectors of developing countries

A. Enlarging and deepening monetary, financial and investment cooperation among developing countries

(i) Trade financing

1. It was commonly agreed that trade financing in developing countries and regions needed to be strengthened. There was a manifest shortage of medium- and long-term lending and of guarantees, particularly for small enterprises and for the financing of non-traditional exports. Some delegations emphasized that such trade financing should be offered on commercial terms, and that consessional terms might be suitable only under separate windows in the framework of targeted technical assistance programmes.

2. Many delegations considered that measures to increase the availability of trade finance to developing countries could include the multilateralization of bilateral reciprocal credit agreements and the enhancement of UNCTAD's capacity to deliver technical assistance in trade financing on the basis of substantive work on trade finance and cooperation with regional development banks to secure their involvement in this area. Technical assistance, it was pointed out, could be particularly useful in the process of the standardization of documentation and procedures. Specific interest was also expressed in launching regional seminars on trade financing.

(ii) Multilateral payments and clearing arrangements

3. It was widely accepted that these schemes played a very useful role in promoting South-South cooperation. UNCTAD was encouraged to continue its activities in this area, including its collaboration with the Coordination Committee on Multilateral Payments Arrangements among Developing Countries. One delegation proposed in addition that the analysis on payments arrangements should be included in the Trade and Development Report.

(iii) Financial cooperation

4. On the question of direct and portfolio flows among developing countries, delegations generally shared the view that financial flows had a positive impact on host economies: they complemented domestic savings, and in the case of long-term FDI brought in new technology and know-how. However, delegations also noted the risks of financial flows, and one delegation expressed concern on the speculatory character of some financial flows in certain situations. In this respect, it was pointed out that there was preliminary evidence that intraregional flows were less volatile than general portfolio flows, since they mostly involved FDI flows, which needed to be given preference. One delegation expressed concern regarding duplication in discussing this issue in

the ECDC Committee. However, it was explained that the issues were being dealt with strictly from the optic of ECDC and at the explicit request of some members of the Committee.

5. In discussing the problem of economic management of financial flows in developing countries, it was recognized that there was no easy or uniform solution to the problems of volatility of financial flows. In some countries, the question was how to create the basic conditions (adequate local financial sectors) for attracting investment and keeping it. In other cases, the main concern was how to have a sufficient buffer of domestic savings. In still others the questions posed related to the right macroeconomic policies. In any event, it was pointed out that international cooperation between the countries concerned was very useful and much needed.

6. Some delegations felt that there was a need for further analysis and significant technical assistance in this area. One potentiality to be explored might be the transfer of experience and technical assistance offered by one developing country or group to another. Given the complexity of the issue of capital markets, some delegations also requested the preparation of an inventory of measures influencing these flows and international standards.

(iv) Monetary coordination

7. The issue of monetary coordination was also raised by some delegates. It was stressed that it was a very useful element of integration, although it was not easy to carry it out effectively.

B. Promoting cooperation of the enterprise sectors of developing countries

8. It was generally agreed that strengthening of enterprise cooperation and the participation of the business community of developing countries in the ECDC process was an important priority. UNCTAD could play an important role in encouraging and organizing business contacts between businessmen/businesswomen and enterprises/entrepreneurs of developing countries, as well as their organizations.

9. One delegation stated that export processing zones based on fiscal concessions had not been successful. Several other delegations, however, expressed the view that export processing zones and industrial and special economic zones had been highly successful and had helped economic development in their countries. They also called upon UNCTAD to continue its technical assistance programmes to support free zones in developing countries, including the organization of meetings between investors and representatives of free zones and support for regional associations of free zones.

10. Some delegations noted that the database proposed in paragraph 94 (iv) of document TD/B/C.3/13 on investment opportunities and regulations involved duplication with other UNCTAD organs. It was generally agreed that every effort should be made to avoid duplication, assure coordination with those working on investment in UNCTAD, and deal only with cooperation aspects of investment. Some delegations, however, declared that the establishment of a database shaped to the needs of ECDC would facilitate cross-border investments and investments among developing countries.

11. One delegation said that in its country there were various forms of enterprise cooperation with other developing countries. This experience had been positive and should be emulated. Another delegation said that UNCTAD should strengthen its research and assistance for enterprise cooperation, while yet another suggested that the activities mentioned in paragraphs 60 and 83 of document TD/B/C.3/13 should be combined with paragraph 94.

Agenda item 4: Evaluation of major developments in the area of economic cooperation among developing countries, including implications of the Uruguay Round results on ECDC arrangements and regular consultations, technical support, assistance and skill development

A. Evaluation of major developments in the area of economic cooperation among developing countries

12. The discussion on this subject showed that a review of developments facilitated the exchange of experience among developing countries, groupings and regions and between them and the international community with a view to drawing appropriate lessons for the further strengthening of ECDC, even if some of the issues raised were provocative. The intergovernmental discussion also generated proposals for guiding the secretariat in its future reporting of developments in ECDC.

13. One delegation observed that intraregional trade expansion might imply trade diversion rather than trade creation and that a balanced appraisal of the various issues was needed. He urged that the review of intraregional trade, such as in the case of Latin America and the Caribbean (para. 24), required further analysis to determine whether the recent expansion of such trade in developing regions was not due empirically to trade diversion.

14. Several delegations observed that the recent growth in intraregional trade of developing countries had been accompanied by an expansion of overall regional exports to the world, and both were taking place in an environment of growing trade liberalization. In this situation, the growth of intraregional trade could be interpreted as arising from trade creation and growing complementarity. Some delegations stressed that the growth of intraregional trade should not be viewed as a negative development, but it should rather be welcomed and encouraged, as it was in the interests of the world economy as a whole. In Latin America, the resurgence of intraregional trade had been preceded by a major liberalization of trading regimes, often undertaken unilaterally, which had started in the 1970s. It was also noted that trade among the member States of the European Union represented more than 50 per cent of their aggregate trade with the world at large, while the equivalent ratio in the developing regions was much lower.

15. The concept of "open and flexible ECDC" was considered by the participants. It was the common view that "openness" of ECDC had several aspects which fostered greater consistency between the evolving ECDC process and the emerging multilateral trade system under WTO. These aspects included, for example, the harmonization of economic policies and the standardization of rules, procedures, standards and practices within subregional and regional integration groupings in line with those evolved in the Uruguay Round. This view was supported by several delegations, who stated that recent dynamics in

ECDC generally and in subregional and regional integration in particular supported open and flexible ECDC, which helped smooth the trend in the world economy towards globalization and liberalization.

16. One participant cautioned that, though the debate was focused on trade, ECDC was more than just trade and included other dimensions which often underpinned economic and trade integration. Training of human resources and strengthening of institutional mechanisms for ECDC were also important. In this respect the secretariat's work on the preparation of national country case studies on experiences in ECDC in Malaysia, Venezuela and Zimbabwe (UNCTAD/ECDC/247, 248 and 249 respectively) were commended as of major interest and use to countries. These studies provided insights into institutional issues, as well as issues relating to the promotion of foreign investment, and they constituted useful technical material.

B. Implications of the conclusion of the Uruguay Round on ECDC activities

17. With regard to the implication of the conclusion of the Uruguay Round of Multilateral Trade Negotiations on ECDC activities within UNCTAD, some delegations expressed their concern that the implications of the Uruguay Round as discussed in the secretariat's report tended to give a negative assessment of the Round. For example, the report drew attention to the negative aspects of the agreement on subsidies, suggested coordination among developing countries in dispute settlement, and advocated cooperation in dealing with the effects of the abolition of the Multi-Fibre Agreement, which might imply price-fixing. The Round had had positive trade-liberalizing effects on regional/subregional liberalization efforts which needed to be taken into consideration. Several other delegations, however, considered that the report was useful in pointing out potential problems that developing countries might face in grappling with the Round results and how ECDC could be utilized to ease these problems. Another delegation stated that the report on this issue was very informative and not negative from the developing countries' point of view.

18. On the possibility of coordination among developing countries in dispute settlement, one delegation stated that the results of the Uruguay Round favoured more the small and/or developing countries. One delegation in particular stated that cooperation among developing countries was a necessary means to balance the economic stake in dispute settlement, and emphasized the need for the establishment of consultation mechanisms on this aspect by the regional organizations of developing countries. Another delegation stated that stronger cooperation among developing countries would inevitably provide better negotiating capacity in dispute settlement, as well as in future negotiations.

19. It was pointed out that the possible trade-diversion effects of economic integration should have been more clearly brought out in the report. In reply, another delegation pointed to the low level of intraregional trade in the economic integration groupings of developing countries as compared to the intraregional trade in the European Union, which justified continued emphasis on intra-trade among developing countries. Most delegations also felt that economic integration among developing countries was being pursued in a positive manner. "Open and flexible ECDC" compatible with the globalization

process had a net liberalization effect both within the groupings and outside. It was in that perspective that developed countries were encouraging regional integration initiatives among developing countries.

20. One delegation described the OECD initiative on a Multilateral Agreement on Investment, and suggested that any proposal to conduct a study on this issue should take that initiative into account.

21. Another delegation drew specific attention to the statement in the secretariat's report to the effect that the conclusion of the Round seemed to have provided a good opportunity for regional/subregional integration groupings to reflect on the issues in question and, if necessary, redefine or reintroduce them in the light of the new multilateral framework. He also emphasized that the integration issue was not confined only to trade but also covered all other areas. It was further suggested that the quality of institutional mechanisms would be an essential factor in dealing effectively with the results of the Round, and that this might be where the work of ECDC in UNCTAD would be most effective.

C. Regular consultations

22. On the subject of regular consultations between ECDC entities and interested donors, several participants expressed their support for such consultations, which would provide a way of increasing understanding between participants (recipients and donors) and could lead to concrete follow-up activities. Consultations were also important in the new situation where developing countries were becoming increasingly diversified and therefore had correspondingly diversified needs. The secretariat's suggestions on new areas for regular consultations, namely triangular cooperation, institutional and policy-based lending that favoured private enterprises, and support for subregional and regional development banks, were generally endorsed by one delegation.

23. A number of delegations referred to the working group meeting scheduled for 31 July to 4 August 1995 in New York in accordance with General Assembly resolution 49/96. Information was given on the status of preparation of this meeting, which UNCTAD and the TCDC Unit of UNDP were servicing.

D. Technical support, assistance and skill development

24. In respect of technical assistance and skill development, some delegations welcomed the secretariat's effort to support the strengthening of integration in Central America (TD/B/CN.3/14, para. 86) and urged further follow-up to concretize practical activities. In this context mention was also made of the efforts of the Group of Three (Mexico, Colombia, Venezuela) and Mexico in launching various initiatives to support the development of Central American countries and their economic integration. One innovative enterprise was the signing of an agreement between the Central American countries and Mexico and Venezuela on the utilization of part of the payments for fuel made by the former group of countries to the latter (some US$ 200 million) for development projects in Central America. A recent evaluation showed that over 3,000 supportive activities had been delivered by the Group of Three to the Central American countries.

25. In the area of technology, several participants proposed that cooperation be established between enterprises and research centres and universities. One delegation recalled the Asia-Pacific Workshop on R and D Community Enterprise Cooperation in Technological Research and Commercialization/Application of Results. He emphasized that, in addressing the issue of technological cooperation, attention should be paid to multi-enterprise and multi-country efforts and cooperation between research institutes, universities and policy-makers. Work should be operationally oriented, and it should encompass commercialization of technology, the pooling of R and D resources, venture capital financing associations, research contracting, techno-economic information, etc.

Other general comments

26. A number of requests for clarification were made. On the date for the first Afro-Arab trade fair in Tunis (TD/B/CN.3/14, paras. 8 and 89), November 1993 was the correct date. On the question as to whether the concept of donor support for trade-finance (para. 79) encompassed donor support in the form of the provision of export credit, it was explained that the issue had been raised in the context of regular consultations involving donor support for specific ECDC programmes and projects, while the issue of trade financing per se was discussed under agenda item 3. On the relations between the West African Clearing House (WACH) and the West African Monetary Agency (WAMA) and the membership of WAMA (para. 94), it was explained that WACH had been transformed into WAMA by a decision of the Heads of States of ECOWAS, and WAMA membership comprised all ECOWAS States, including the French-speaking countries of the subregion which were members of the CFA zone. On the proposal for multilateralizing bilateral payments agreements (para. 79), it was suggested that the practice of LAIA could be used as a model. On the availability of trade statistics for 1993 and 1994 (the secretariat's report presented trade data up to 1992), it was explained that there was normally an 18-month delay in the compilation of data. On the generalized system of preferences (GSP), the opinion was expressed that it was not an arrangement based on any contractual obligation; it was rather autonomous and unilateral.

Agenda item 5: Review of the Work Programme of the Standing Committee on ECDC, with special emphasis on the preparations for UNCTAD IX

27. Most of the delegations endorsed the various proposals for future action contained in document TD/B/CN.3/15 in the perspective of UNCTAD IX. They considered that, after having passed through the preparatory process prior to UNCTAD IX and the Conference itself, they could provide an excellent basis for future work on ECDC. The spokesperson for the African Group, along with other individual delegations from Africa, fully endorsed the special status accorded to Africa in the document. In view of the special situation of Africa, which had so far been marginalized in global development, ECDC was considered to be a crucial strategy for generating development in Africa; with regard to specific African needs, special emphasis was placed on the role of support by the donor community, the need to stimulate the private sector, human resource development, FDI, commodity diversification programmes and other issues mentioned in the secretariat's report (TD/B/CN.3/15, paras. 54-57). It was emphasized that the geographical prioritization in the secretariat's report should be followed by an appropriate functional and sectoral prioritization to support African development through ECDC. The role of the private sector in

fostering ECDC directed towards Africa was also emphasized. One delegation maintained that the Indian Ocean Rim also deserved special consideration for reasons similar to those applicable to Africa.

28. Several delegations emphasized the need to exchange integration experiences among developing countries, as suggested in the secretariat's report, and the exchange of experience at the country level was endorsed by most delegations as a modality of generating cooperation among developing countries; specific mention was made in that context to UNCTAD's three country studies on Malaysia, Zimbabwe and Venezuela.

29. The Latin American integration experience, which was comparatively more advanced than that in the other developing regions, was cited as a good source of information for energizing cooperation in the field of integration. In the context of globalization and liberalization, the concept of open and flexible ECDC was accepted by most delegations. In that perspective, regional integration was considered as a step towards both an extension of intraregional trade and achieving overall trade liberalization.

30. Most delegations emphasized the importance of the results of the Uruguay Round and its impact on ECDC at different levels. Future work on ECDC should therefore take this into account.

31. Many delegations insisted that in carrying out the ECDC work programme, duplication should be avoided. Such work should be pursued with maximum coordination with the regional commissions, the TCDC Unit in UNDP and ITC. On the subject of regular consultations, one delegation emphasized the importance of the recommendations made by the Intergovernmental Group of Experts on ECDC. A number of delegations emphasized that a distinction should be made between the work methods of the Standing Committee on ECDC and the technical work of the secretariat, with which delegates expressed satisfaction. The problem posed by the intergovernmental machinery was closely linked to the overall institutional crisis which UNCTAD faced and which had to be reviewed in the light of future priorities at UNCTAD IX. New methods of work would need to be developed. In this respect, participation by experts from capitals would greatly enrich the deliberations of the Standing Committee and focus discussions on practical and operational issues.

Annex IV

MEMBERSHIP 1/

1. The following States members of UNCTAD were represented at the session:

Afghanistan
Algeria
Brazil
China
Colombia
Côte d' Ivoire
Cuba
Democratic People's Republic of Korea
Egypt
Ethiopia
France
Germany
Greece
Honduras
India
Indonesia
Iran (Islamic Republic of)
Iraq
Jamaica
Japan
Jordan
Kenya
Libyan Arab Jamahiriya
Madagascar
Malaysia
Mali
Mexico
Mongolia
Morocco
Myanmar
Nepal
Philippines
Romania
Russian Federation
Saudi Arabia
Sri Lanka
Switzerland
Thailand
Trinidad and Tobago
Tunisia
Turkey
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Uruguay
Venezuela
Viet Nam
Zambia

2. The following other States members of UNCTAD were represented as observers at the session:

Angola
Chile
Dominica
Ecuador
Nicaragua
Sierra Leone
South Africa

3. The following specialized agencies were represented at the session:

Food and Agriculture Organization of the United Nations
International Monetary Fund

The World Trade Organization was also represented.

1/ For the list of participants, see TD/B/CN.3/INF.3.

4. The following intergovernmental organizations were represented at the session:

Arab Maghreb Union
Central American Integration System
European Community
Organization of African Unity

5. The following non-governmental organizations were represented at the session:

General Category

World Association of Former United Nations Interns and Fellows
World Federation of United Nations Associations

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